1/9/89 A6910-1

National Association of Purchasing Management®

Report On Business®
January 3, 1989
Volume 7, Number 1

Vigorous Growth Continues: Index Rises to 58.1%

Production and New Order Growth Rate Greatest Since July

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

December Report

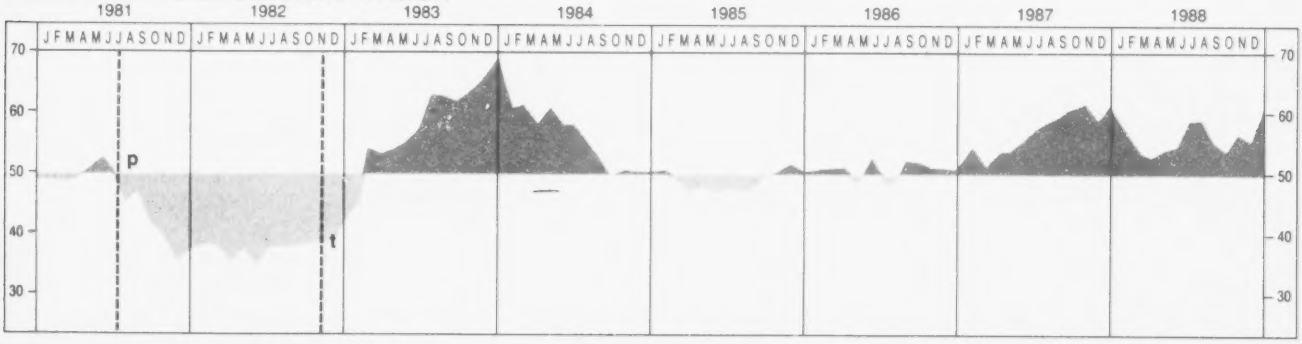
The economy closed the year with vigorous growth, say the nation's purchasing executives in their latest ***Report on Business.*** **Production** and **New Orders** growth rates rose in December to their highest levels since July. The **Employment** growth rate slowed only slightly, and except for November, is the greatest since last December.

New **Export Orders,** after growing at a slower rate for the past four months, increased at the highest rate since July. Of those members who export, 30% reported higher export orders, up from 22% in November. The 6% indicating lower export orders is down from 8% reported last month.

Vendor Deliveries continued to slow in December, reflecting the seasonally strong growth in Production. **Inventories** also increased, but at a lesser rate than in November. The rate of growth in **Prices** was lower for the sixth consecutive month and is at its lowest level since May 1987.

The *Report* was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "December exited the 1988 economy like a lion. The continued robust growth capped the final quarter at what could be the strongest growth rate of the year. Except for a solid downtrend in the rate of inflation, there were few signs of the anticipated slowing in this, the seventh year of the recovery."

PURCHASING MANAGERS' INDEX



Purchasing Managers' Index

January	57.4	July	59.0
February	54.9	August	56.2
March	53.3	September	54.8
April	54.9	October	56.8
May	55.1	November	56.6
June	59.3	December	58.1

The **Purchasing Managers' Index** increased to 58.1% in December, respectably higher than the 56.6% in November. The 58.1% was the highest reading since July (59.0%) and marks the 29th consecutive month this leading indicator has exceeded 50%. A reading above 50 indicates that the economy is generally expanding; below 50, that the economy is generally declining. Bretz added, "The average for all of 1988 is 56.4%. Based on past experience, this is consistent with real GNP growth of about 3.7% for 1988, less the loss resulting from the drought, and unchanged for the last six months."

Data and method of presentation

The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state; and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

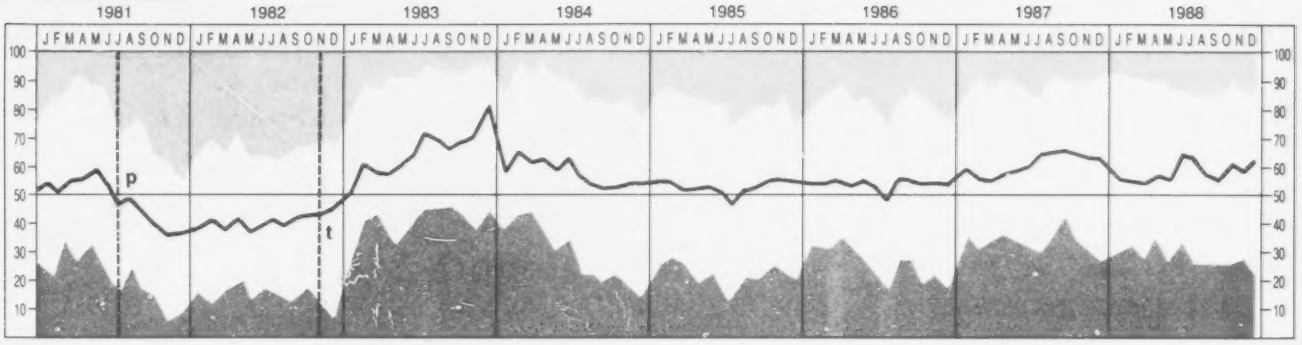
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response;
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries);
- the diffusion index.

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak ("p" — July 1981) and trough ("t" — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses, plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

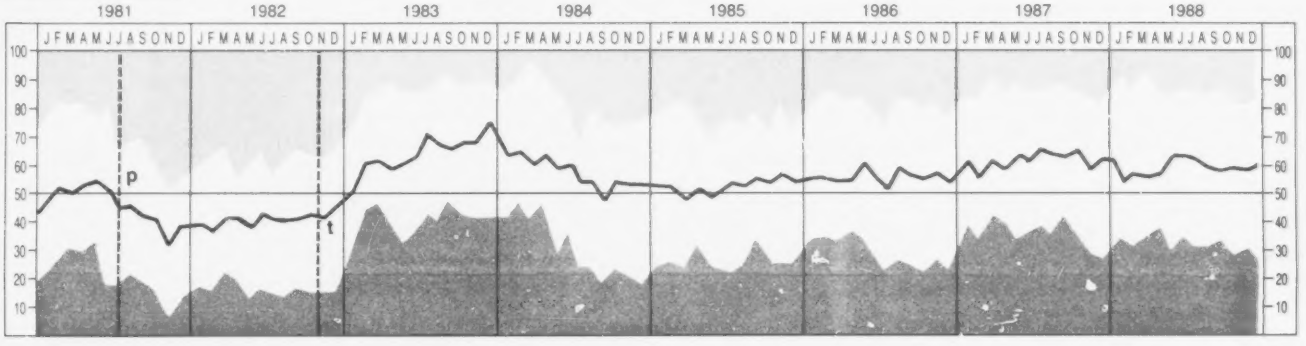
PRODUCTION



December marked the 29th consecutive month in which Production increased. The seasonally adjusted index advanced at a vigorous pace to 61.3%, up from 58.2% in November and the highest registered since July (62.7%).

Production	%Better	%Same	%Worse	Net	Index
December	22	65	13	+ 9	61.3
November	27	58	15	+12	58.2
October	26	65	9	+17	60.3
September	26	62	12	+14	56.0

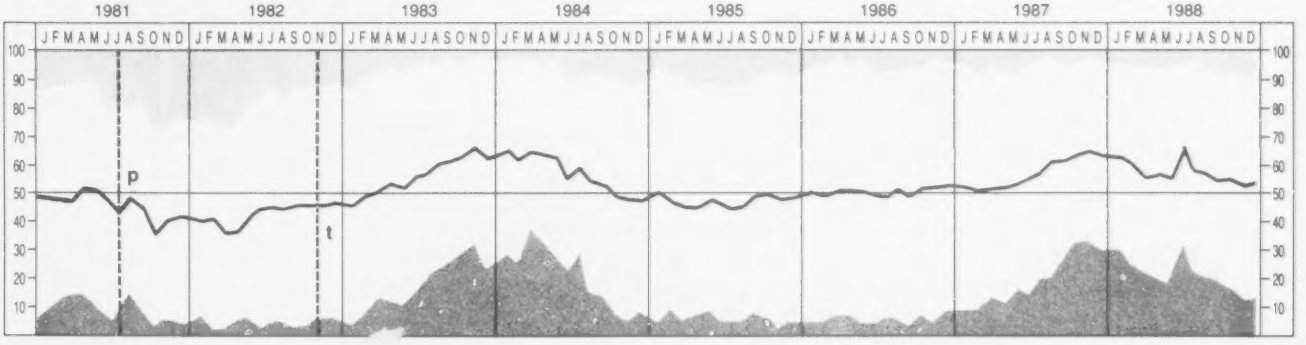
NEW ORDERS



New Orders expanded in December for the 43rd consecutive month, when considering normal seasonal variations. The index rose to 60.1%, a brisk increase from 58.0% in November, and the highest growth rate since July (62.1%). This high level of New Orders, buoyed by the pick-up in the growth of Export Orders in December, suggests continued growth in Production into 1989.

New Orders	%Better	%Same	%Worse	Net	Index
December	24	59	17	+ 7	60.1
November	30	52	18	+12	58.0
October	28	54	18	+10	58.9
September	34	55	11	+23	58.4

VENDOR DELIVERIES



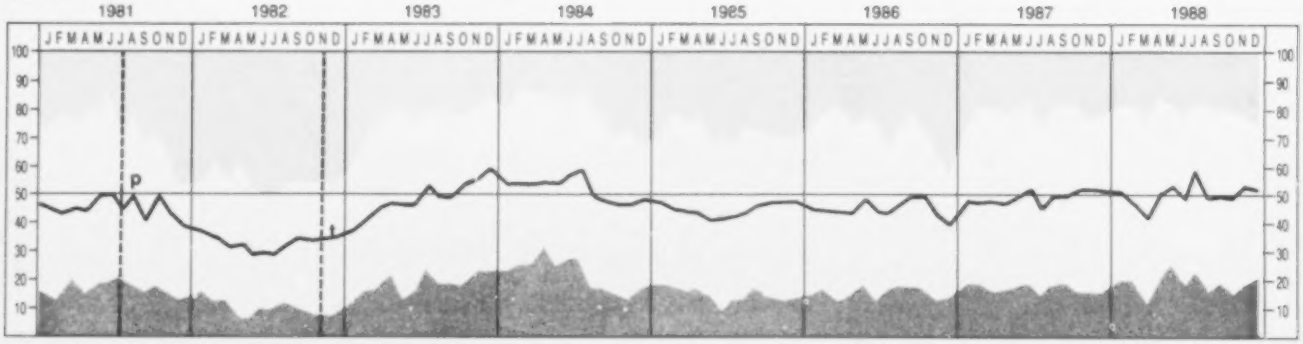
Vendor Deliveries slowed again in De[illegible]ber for the 27th consecutive month. The rate of slowing increased in Dece[illegible]ber (54.0%) from 52.1% in November, when it fell from 55.6% in October. Dece[illegible]ber's rebound confirms the persistent strong growth in the economy.

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
December	15	77	8	+ 7	54.0
November	11	81	8	+ 3	52.1
October	17	77	6	+11	55.6
September	19	73	8	+11	55.0

IN SHORT SUPPLY:

Aluminum (15th consecutive month), **Copper** (4th consecutive month), **Steel** (18th time in 20 months), **Stainless Steel** (12th consecutive month), **Steel Tubing** (3rd time in 5 months), **Castings** (2nd time in 4 months), **Bleached Paperboard** (6th consecutive month), **Printing Paper** (1st time since August 1988), **Polyethylene** (8th consecutive month; used heavily in making packaging materials and paper coatings), **Acrylic Acid** (5th time in 6 months; used in manufacturing plastics), **Caustic Soda/Soda Ash** (19th consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Ethylene Oxide** (10th consecutive month), **Ethylene Derivatives** (6th time in 7 months), **Ethylene Glycol** (5th time in 7 months), **Phenol** (9th consecutive month; used heavily in making phenolic resins), **Titanium Dioxide** (17th consecutive month; lead-free pigment used as a whitener in coatings, paints, paper and other industrial applications), **Rayon** (2nd consecutive month), **Bearings** (5th consecutive month), **Electrical Parts**.

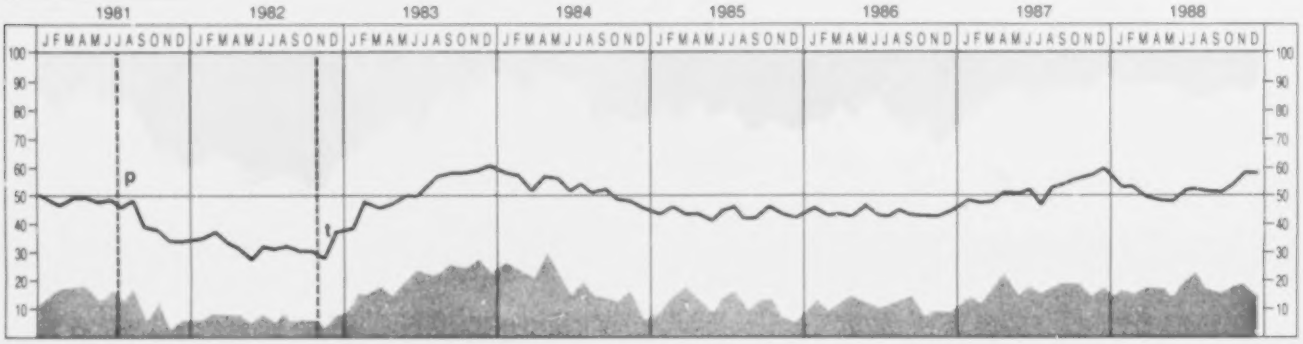
INVENTORIES



Inventories increased in December, on a seasonally adjusted basis, for the second consecutive month. The index, at 51.4%, was up slightly from 52.6% last month. This suggests that some modest inventory buildup may have occurred to selectively hedge against announced January 1 price increases and alleviate persistent shortages in certain commodities.

Inventories	%Higher	%Same	%Lower	Net	Index
December	20	55	25	-5	51.4
November	17	61	22	-5	52.6
October	15	65	20	-5	49.4
September	20	61	19	+1	49.6

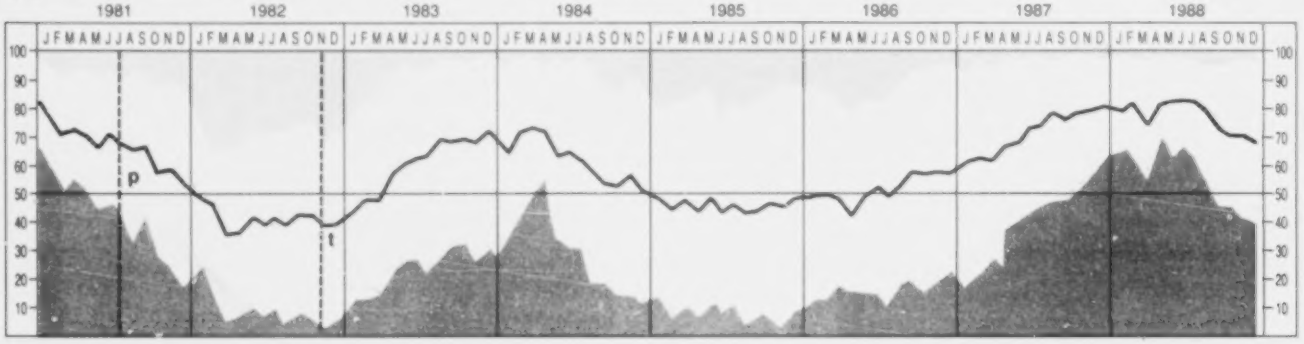
EMPLOYMENT



Employment increased again in December for the seventh consecutive month. The index, at 57.5%, was only slightly lower than in November (57.9%), and except for last month, is the greatest since last December (59.7%).

Employment	%Higher	%Same	%Lower	Net	Index
December	14	75	11	+3	57.5
November	18	69	13	+5	57.9
October	16	72	12	+4	53.7
September	14	70	16	-2	50.2

COMMODITY PRICES



December marked the 29th consecutive month of price increases. However, the good news is that the rate of growth in prices declined for the sixth consecutive month. The index (68.4%) is the lowest since May 1987 (67.8%), and confirms a solid downtrend in the rate of inflation since mid year.

Prices	%Higher	%Same	%Lower	Net	Index
December	39	58	3	+36	68.4
November	40	58	2	+38	70.3
October	45	51	4	+41	70.7
September	47	49	4	+43	72.2

UP IN PRICE:

Brass, Copper (20th time in 22 months), **Lead** (used heavily in making paints, petroleum, pipe and batteries), **Nickel** (7th time in 10 months; used heavily in making stainless steel, plating metals and batteries), **Steel** (27th time in 28 months), **Zinc** (11th time in 12 months; used heavily in metal alloys and as a protective coating for metals), **Castings** (5th consecutive month), **Corrugated Shipping Containers** (1st time since August 1988), **Printing Paper** (21st time in 24 months), **Wood Pulp** (used in making all grades of paper and linerboard), **Polyethylene** (17th time in 19 months; used heavily in making packaging material and paper coatings), **Plastic Products** (19th time in 20 months), **Amines** (used as an emulsifier, fungicide, in making rubber, petroleum, resins and dyes), **Benzene** (used heavily in making medicinal chemicals, dyes, varnishes, lacquers and resins), **Caustic Soda**, **Soda Ash** (25th consecutive month; used heavily in paper making, petroleum refining and soap-making), **Ethylene Glycol** (5th time in 6 months; used heavily in making antifreeze, brake fluid, plastic paint and ink), **Glycerine** (used in various ways: sweetener in confectionaries, cosmetics, soaps and tobacco), **Menthol** (used heavily in making confectionaries, liqueurs, cigarettes, perfumes and cough drops), **Phenol** (3rd time in 6 months), **Phthalic Anhydride** (used heavily in making artificial resins, benzoic acid and Phthalates), **Toluene** (2nd consecutive month; used heavily in making explosives, dyes and benzoic acid; as a solvent in paint and gasoline additive), **Xylene** (used heavily in making benzoic acid, phthalic anhydride, polyester fibers and dyes), **Polyester, Rayon, Bearings** (5th time in 6 months), **Natural Gas** (3rd time in 4 months), **Fuel Oil** (1st time after reported lower priced in 10 of past 12 months).

DOWN IN PRICE:

Vegetable Oil & Shortening (used heavily in processed foods).

BUYING POLICY

Lead times for Production Materials and Capital Expenditures lengthened in December, mirroring the vigorous growth reported in Production, New Orders and Vendor Deliveries. Members indicating lead times of 30 days or less declined to 49%, down from 57% of the previous two months and the lowest since March 1988 (47%). Members reporting lead times of 6 months and longer for Capital Expenditures rose to 56%, up from 53% in November. Lead times also widened for Maintenance, Repair and Operating (MRO) Supplies, with 82% of purchasers indicating lead times of 30 days or less, down from 86% last month.

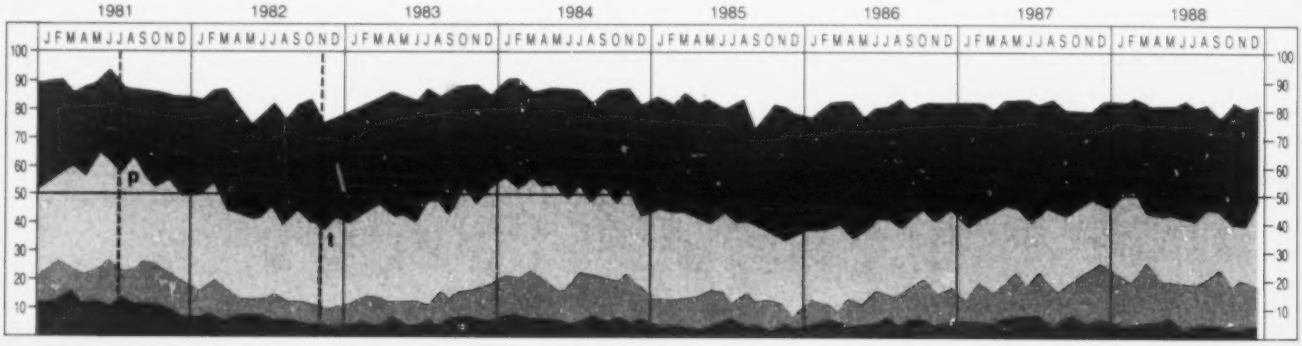
Percent Reporting

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
December	16	33	30	15	6
November	17	40	21	16	6
October	15	42	23	15	5
September	16	34	24	20	6

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
December	9	5	14	16	56
November	11	6	11	19	53
October	10	6	12	15	57
September	9	5	10	16	60

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
December	34	48	13	4	1
November	40	46	8	4	2
October	38	42	13	5	2
September	38	47	13	2	0

PRODUCTION MATERIALS



Commodity Report
December, 1988

WOOD PRODUCTS

Prepared by the NAPM Wood Products Committee. Chair: Sam Craven, Pope and Talbot, Inc., Portland, OR.

GENERAL: New construction and labor strikes on the West Coast kept operating mills near capacity during 1988. Rising interest rates may cause a mild downturn of demand and prices in 1989.

SOFTWOOD LUMBER: Price and supply remain firm. Look for slight easing of prices in the first and second quarter of 1989. Timber prices rising as available wood supply tightens. The Canadian lumber tariff and weakening of the U.S. dollar has helped keep the price of Canadian lumber up. Exports are steady with the prices slightly lower as supply exceeds demand. The market should continue steady as long as the dollar is low. The secondary market (furniture and remodeling) continues steady and should remain so through 1989.

HARDWOOD — VENEERS: Price and demand were steady through most of the year. The furniture/flooring and veneer markets were strong. Expect the market and prices to hold steady for first half of 1989.

BY-PRODUCTS: Chip prices remain strong with no decline expected in the near future. The foreign and domestic pulp markets are expected to remain strong through the year.

NON-FERROUS METALS

Prepared by the NAPM Non-Ferrous Metals Committee. Chair: Sharon Sinke, C.P.M., C.L. Frost Inc., Grand Rapids, MI.

LEAD: The price of lead is currently split $0.395–0.42/lb., with one primary producer holding at $0.395 and three at $0.42. Expect prices to drop early in 1989 to $0.33–35 range, as demand decreases from battery manufacturers. U.S. supplies have been tight this fall because of production problems and high demand. Inventories dropped to a record low of 5100 tons last fall. Supply will increase in 1989 as one smelter is reactivated and others increase capacity. Also, two U.S. primary producers may expand into secondary production, and a major secondary producer plans to double capacity over the next five years by lead recovery from scrap batteries. Overall, supply should begin to exceed demand, causing prices to soften.

This *REPORT ON BUSINESS* is published monthly by the National Association of Purchasing Management, Inc., 2055 East Centennial Circle, Post Office Box 22160, Tempe, Arizona 85285-2160. Telephone: 602/752-NAPM (752-6276). Telecopier: 602/752-7890. NAPM is the largest purchasing education and research organization in the United States, with close to 30,000 members. The REPORT has been issued by the Association each month since 1931, except for a brief hiatus during World War II. It is distributed 12 times a year to NAPM members. Additional subscriptions are $50 a year for members, $100 for nonmembers. Add $25 outside the United States, Canada and Mexico.

The next issue of *REPORT ON BUSINESS* will be available February 6, 1989.